

**Supplemental Reporting Document
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March 2006 Investment Committee Meeting
(January 2006 Reporting Period)**

Quarterly Reports

CalPERS Affiliate Funds
Legislators' Retirement System



Investment Office

P.O. Box 2749

Sacramento, CA 94229-2749

(916) 795-3400

FAX (916) 795-3248

March 13, 2006

SUPPLEMENTAL ITEM

TO: MEMBERS OF THE INVESTMENT COMMITTEE

I. SUBJECT: Quarterly Performance/Annual Review Reports

II. PROGRAM: Affiliate Funds

III. RECOMMENDATION: Information

IV. ANALYSIS:

Attached is Wilshire Associates' Executive Summary of Investment Performance of the CalPERS Affiliate Funds for the period ended December 31, 2005. The report was prepared entirely by Wilshire and based solely on its compilation and analysis of the data. The report was reviewed by the Performance Monitoring Unit to substantiate the performance returns.

V. STRATEGIC PLAN:

Goal VIII: Manage the risk and volatility of assets and liabilities to ensure sufficient funds are available, first, to pay benefits and second, to minimize and stabilize contributions.

VI. RESULTS/COSTS:

This item provides information to Investment Committee members on the assets and performance of the fund. Wilshire Associates, our general pension consultant, produces this report as one of their contract requirements.

Members of the Investment Committee
March 13, 2006
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Dana C. Warmenhoven
Investment Officer I

Greg Hood
Division Chief

Anne Stausboll
Interim Chief Investment Officer

Executive Summary

of Investment Performance

**Prepared for
California Public Employees'
Retirement System Affiliate Funds**

Fourth Quarter 2005

Capital Market Overview

- ◆ In the fourth quarter of 2005, the US economy showed remarkable resiliency after the multiple hurricanes, as the Gross Domestic Product and unemployment data indicated only small lingering effects of the devastation on the Gulf Coast Region. The Federal Reserve Board continued its inflation-fighting operations, raising the Fed Funds overnight rate to 4.25% in two 25 basis-point increases. Consumer prices fell during the fourth quarter due to a pullback in crude oil prices. The US stock market was in positive territory with the Dow Jones Wilshire 5000 Index and the S&P 500 Index returning 2.2% and 2.1%, respectively, as investors witnessed record earnings by oil companies, a dramatic decline in crude oil prices, wide swings in the US trade deficit, and the prospects of a more growth-oriented Fed under incoming chairman Ben Bernanke. The Materials Sector, helped by continued construction spending, was the top performing sector with a return of 8.3%, while the Energy Sector, hindered by the pull-back in oil prices, was the worst-performer returning -6.8%. Growth stocks outperformed versus value stocks across the markets, as Large Growth outperformed Large Value (Wilshire Large Growth, 3.1%; Wilshire Large Value, 1.6%) and Small Growth outperformed Small Value (Wilshire Small Growth, 2.5%; Wilshire Small Value, 0.9%). From a size standpoint, large outperformed versus small stocks while micro cap stocks lagged (DJ Wilshire Large Cap 750, 2.3%; DJ Wilshire Small Cap 1750, 1.7%; Wilshire Micro Cap, 0.6%).
- ◆ Non-US equity markets continued to produce higher returns than the US equity markets as the MSCI ACWI ex-US returned 4.4% in USD and 6.9% in local currency. The Pacific region outperformed Europe (MSCI Pacific 8.6% in USD; MSCI Pacific 12.6% in local currency; MSCI Europe 2.0% in USD; MSCI Europe 4.6% in local currency), as crude oil prices fell and dampened the performance of major European companies like Royal Dutch Shell and British Petroleum. The emerging markets continued to outperform the developed markets as the MSCI EMF Index returned 7.2% in USD and 7.0% in local currency versus the MSCI EAFE Index return of 4.1% in USD and 7.1% in local currency.
- ◆ For the seventh consecutive quarter, the Federal Reserve continued its policy of raising the discount rate to keep inflation in check, and yields increased throughout all maturity ranges of the US Treasury yield curve. The Lehman Aggregate Bond Index rose during the quarter, returning 0.6%. Among the Lehman sectors, the Mortgage sector slightly outperformed the Credit sector, returning 0.6% and 0.5%, respectively, for the quarter. The possibility of an inverted yield curve (short-maturity yields higher than long-term yields) looms large for investors heading into 2006. In a typical reaction to this interest-rate environment, short-term bonds underperformed longer-term issuance for the quarter (Lehman 1-3 Year Treasury, 0.70%; Lehman Long Treasury, 1.07%). High yield bonds produced similar results to their counterparts as the Citigroup High Yield Cash Pay Index reported a 0.6% return. The international bond markets lagged the U.S. bond market as the Citigroup Non-US Government Bond Index generated a return of -2.6% during the quarter, as the major currencies depreciated versus the USD.
- ◆ The public real estate securities market, as represented by the Dow Jones Wilshire Real Estate Securities Index ("DJWRESI"), continued its upward track and posted a return of 3.0% for the quarter. The one year return is a robust 13.8%. The NCREIF Property Index reported a return of 5.4% for the quarter, reflecting the fact that the index is measured on an appraised basis.



Summary of Index Returns

For Periods Ended December 31, 2005

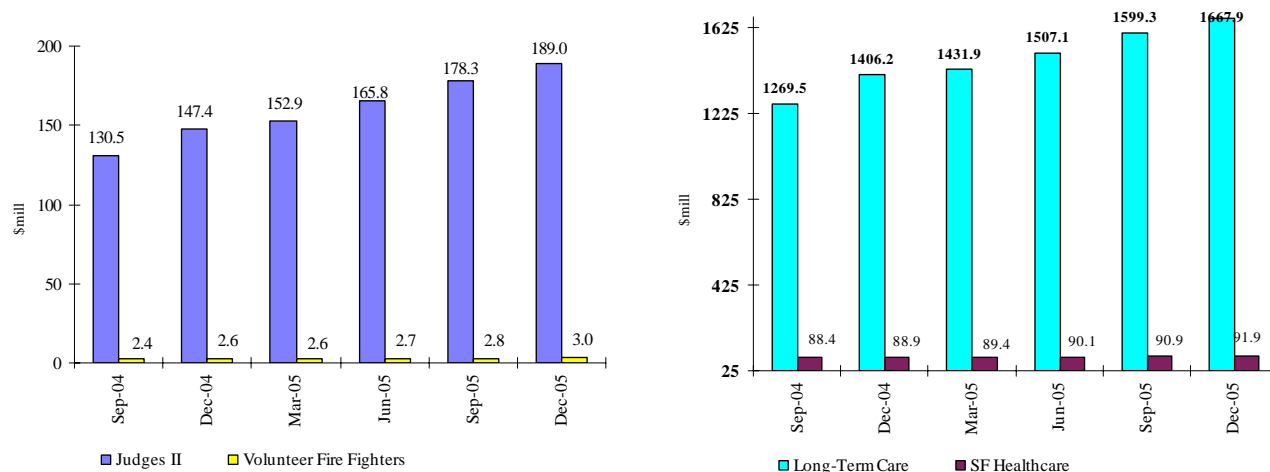
	Quarter	One Year	Three Years	Five Years	Ten Years
Domestic Equity					
Standard & Poor's 500	2.09%	4.89%	14.39%	0.54%	9.08%
Dow Jones Wilshire 5000	2.21	6.38	16.35	2.10	9.15
Dow Jones Wilshire 4500	2.70	10.03	23.18	6.86	9.79
Wilshire Large Cap 750	2.32	8.08	15.25	1.01	9.17
Wilshire Small Cap 1750	1.65	9.21	24.11	9.81	10.80
Wilshire Micro Cap 2500	0.63	4.44	29.52	19.78	14.40
Domestic Equity					
Wilshire Large Value	1.60%	7.54%	16.15%	4.80%	10.29%
Wilshire Large Growth	3.12	8.70	14.36	-2.73	7.62
Wilshire Mid Value	1.00	7.34	18.82	10.04	13.61
Wilshire Mid Growth	4.07	18.55	25.78	5.42	8.23
Wilshire Small Value	0.85	7.13	22.75	13.74	13.73
Wilshire Small Growth	2.50	11.44	25.41	5.33	7.14
International Equity					
MSCI All World ex U.S.	4.39%	17.11%	26.19%	6.66%	6.70%
MSCI EAFE	4.08	13.53	23.68	4.55	5.83
MSCI Europe	1.95	9.42	22.37	3.68	9.38
MSCI Pacific	8.60	22.64	26.42	6.45	1.11
MSCI EMF Index	7.20	34.54	38.35	19.43	6.99
Domestic Fixed Income					
Lehman Aggregate Bond	0.59%	2.43%	3.62%	5.87%	6.16%
Lehman Credit	0.49	1.95	4.94	7.11	6.46
Lehman Mortgage	0.60	2.62	3.45	5.44	6.17
Lehman Treasury	0.73	2.78	2.86	5.36	5.93
Citigroup High Yield Cash Pay	0.37	2.07	13.42	9.17	6.94
91-Day Treasury Bill	0.91	3.06	1.84	2.34	3.85
International Fixed Income					
Citigroup World Gov. Bond	-1.92%	-6.87%	5.71%	6.93%	5.00%
Citigroup Non-U.S. Gov. Bond	-2.61	-9.21	6.46	7.26	4.41
Citigroup Hedged Non-U.S. Gov.	0.87	5.69	4.24	5.13	7.19
Currency*					
Euro vs. \$	-2.16%	-13.22%	3.98%	4.67%	-.-%
Yen vs. \$	-3.97	-13.18	0.18	-0.66	-1.34
Pound vs. \$	-2.96	-10.58	2.17	2.82	1.01
Real Estate					
Dow Jones Wilshire REIT Index	2.52%	13.82%	27.32%	19.15%	15.36%
Dow Jones Wilshire RESI	3.02	13.82	28.13	18.99	15.12
NCREIF Property Index	5.43	20.06	14.42	11.40	12.09

*Positive values indicate dollar depreciation.



Affiliate Fund Performance

Growth in Assets



Total Fund Performance Results

Total Fund Performance Periods Ended December 31, 2005

	<u>Qtr</u>	<u>One Year</u>	<u>Three Year</u>	<u>Five Year</u>	<u>Ten Year</u>
Judges II	2.3%	7.2%	12.8%	4.3%	-. -
<i>Weighted Policy Benchmark ¹</i>	2.0	6.0	12.2	4.1	-. -
Long Term Care ("LTC")	2.0	6.5	12.7	4.0	-. -
<i>Weighted Policy Benchmark</i>	1.8	5.0	11.9	3.8	-. -
Volunteer Firefighters ("VFF")	2.2	9.1	12.9	4.0	9.1
<i>Weighted Policy Benchmark</i>	2.0	6.8	11.9	3.8	8.9
SF Healthcare	1.0	3.4	2.3	2.9	-. -
<i>TUCS Public Fund Median ²</i>	2.3	7.6	13.8	5.2	8.6

¹ The weighted policy benchmark returns for Judges II, LTC, and VFF are based on asset class index returns weighted by asset class policy targets.

² The Trust Universe Comparison Service (TUCS) is a universe of over 1,000 client portfolio returns subdivided by client type and asset class.



Asset Allocation

	Judges II	Judges II		LTC	LTC		VFF	VFF	
	Actual	Policy	Diff	Actual	Policy	Diff	Actual	Policy	Diff
US Equity	33.4%	34.0%	-0.6%	28.2%	29.0%	-0.8%	33.3%	34.0%	-0.7%
Int'l Equity	20.3	20.0	0.3	19.1	19.0	0.1	19.6	20.0	-0.4
US Bonds	31.2	36.0	-4.8	31.1	30.0	1.1	36.1	36.0	0.1
High Yield	1.1	0.0	1.1	9.6	10.0	-0.4	0.0	0.0	0.0
TIPS	4.1	0.0	4.1	7.1	7.0	0.1	0.0	0.0	0.0
Real Estate	9.6	10.0	-0.4	4.8	5.0	-0.2	9.7	10.0	-0.3
Cash	<u>0.2</u>	<u>0.0</u>	<u>0.2</u>	<u>0.1</u>	<u>0.0</u>	<u>0.1</u>	<u>1.3</u>	<u>0.0</u>	<u>1.3</u>
Total	100.0	100.0	0.0	100.0	100.0	0.0	100.0	100.0	0.0

Commentary

- ◆ Judges II , VFF, and LTC beat their respective weighted policies during the fourth quarter of 2005. Among the three plans, LTC had the highest allocation to high yield, which performed better than core fixed income and the TIPS over the quarter, and it helped performance.

Internal U.S. Equity Performance Periods Ended December 31, 2005

	<u>Qtr</u>	<u>One</u>	<u>Three</u>	<u>Five</u>	<u>Ten</u>
		<u>Year</u>	<u>Year</u>	<u>Year</u>	<u>Year</u>
Judges II U.S. Equity	2.1%	4.7%	14.2%	0.4%	-. -
LTC U.S. Equity	2.1	4.7	14.3	0.4	-. -
VFF U.S. Equity	1.9	5.9	14.7	0.6	9.1
<i>Custom S&P 500 Index ³</i>	2.1	4.5	14.2	0.4	9.1
<i>Russell 3000 Index</i>	2.0	5.3	14.5	0.6	9.1
<i>TUCS Equity Median</i>	2.2	7.4	18.0	3.2	10.4

³ A tobacco-free S&P 500 is used as the benchmark for the U.S. equity segments of Judges II, LTC and VFF starting with February 2001 performance.



Commentary

- ◆ The U.S. stock market enjoyed another positive quarter, as the Dow Jones Wilshire 5000 Index returned 2.2%, outpacing the S&P 500 Index, which returned 2.1%. The Materials Sector, helped by continued construction spending, was the top performing sector with a return of 8.3%, while the Energy Sector, hindered by the pull-back in oil prices, was the worst-performer returning -6.8%. Growth stocks outperformed versus value stocks across the markets.
- ◆ All three equity funds performed in line with their respective policies over all time periods shown on the previous page, though the Judges II and LTC portfolios, which buy into the custom S&P 500 Index fund, trailed the TUCS Equity Median Manager for the quarter. VFF's equity portfolio, which holds the exchange traded Russell 3000 Index fund, also trailed the TUCS Equity Median Manager for the quarter.

International Equity Performance

International Equity Performance Periods Ended December 31, 2005

	<u>Qtr</u>	<u>One Year</u>	<u>Three Year</u>	<u>Five Year</u>
Judges II Int'l Equity	4.2%	13.9%	23.8%	4.8%
LTC Int'l Equity	4.1	13.9	23.7	4.9
VFF Int'l Equity	4.3	-.	-.	-.
<i>MSCI EAFE</i>	4.1	13.5	23.7	4.6

Commentary

- ◆ Non-US equity markets continued to produce higher returns than the US equity markets as the MSCI ACWI ex-US returned 4.4% in USD and 6.9% in local currency. The Pacific region outperformed Europe (MSCI Pacific 8.6% in USD; MSCI Pacific 12.6% in local currency; MSCI Europe 2.0% in USD; MSCI Europe 4.6% in local currency).. The emerging markets continued to outperform the developed markets as the MSCI EMF Index returned 7.2% in USD and 7.0% in local currency versus the MSCI EAFE Index return of 4.1% in USD and 7.1% in local currency.
- ◆ The international portfolios of Judges II, VFF and Long-Term Care funds performed in line with the MSCI EAFE Index for the most recent quarter and through longer periods.



Total Fixed Income

Fixed Income Performance Periods Ended December 31, 2005

	<u>Qtr</u>	<u>One Year</u>	<u>Three Year</u>	<u>Five Year</u>
Judges II Fixed Income	1.0%	3.9%	5.0%	6.5%
LTC Fixed Income	1.2	5.0	5.5	6.8
VFF Fixed Income	0.1	6.4	5.9	7.1
<i>Lehman Aggregate Bond Index</i>	0.6	2.4	3.6	5.9
<i>Lehman Long Liability</i>	0.7	3.7	-.	-.
<i>Lehman Long Liability ex TIPS ex HY</i>	0.7	-.	-.	-.
<i>Lehman Long Liability ex TIPS</i>	0.7	-.	-.	-.
<i>Citigroup LPF Index</i>	0.8	3.8	5.1	7.2
<i>TUCS Fixed Income Median</i>	0.7	2.8	4.4	6.3
LTC High Yield	1.6	-.	-.	-.
LTC TIPS	0.4	-.	-.	-.
<i>Lehman Long Liability High Yield</i>	1.0	2.7	-.	-.
<i>Lehman Long Liability TIPS</i>	0.4	3.7	-.	-.

Commentary

- ◆ The Lehman Aggregate Bond Index rose during the quarter, returning 0.6%. Among the Lehman sectors, the Mortgage sector slightly outperformed the Credit sector, returning 0.6% and 0.5%, respectively, for the quarter. High yield bonds produced similar results to their counterparts as the Citigroup High Yield Cash Pay Index reported a 0.6% return. The international bond markets lagged the U.S. bond market as the Citigroup Non-US Government Bond Index generated a return of -2.6% during the quarter, as the major currencies depreciated versus the USD.
- ◆ The Judges II portfolio, which includes the global fixed income composite as well as the Affiliate High Yield and TIPS composites, beat the Lehman Long Liability Index, the Citigroup LPF Index, and the TUCS fixed income median during the quarter. The LTC portfolio is a core portfolio that excludes High Yield and TIPS composites, and it also outperformed all broad indices. The VFF's portfolio, which only holds the iShares of Lehman Aggregate ETF, lagged the Lehman Aggregate, Citigroup LPF and the TUCS Fixed Income Median during the quarter. All three portfolios have outperformed against the Lehman Aggregate Bond Index for all other time periods. Judges II has outperformed versus the Citigroup LPF Index for the 1-year period; LTC and VFF has outperformed versus the LPF for the 1-year and 3-year time period.
- ◆ The LTC High Yield composite outperformed its objective, Lehman Long Liability High Yield Index, over the quarter, and LTC's TIPS composite matched the return of Lehman Long Liability TIPS Index for the quarter.



Total Real Estate

Real Estate Performance Periods Ended December 31, 2005

	<u>Qtr</u>	<u>One Year</u>	<u>Three Year</u>	<u>Five Year</u>
Judges II REIT	2.7%	8.5	-.-	-.-
LTC REIT	2.7	-.-	-.-	-.-
VFF REIT	2.6	8.2	-.-	-.-
<i>DJ Wilshire REIT Index</i>	2.5	13.8	27.3	19.2
<i>TUCS Real Estate Median</i>	3.9	17.5	14.9	11.5

Commentary

- ◆ The public real estate securities market, as represented by the Dow Jones Wilshire Real Estate Securities Index ("DJWRESI"), continued its upward track and posted a return of 3.0% for the quarter. The one year return is a robust 13.8%. The NCREIF Property Index reported a return of 5.4% for the quarter, reflecting the fact that the index is measured on an appraised basis.
- ◆ The Judges II, LTC, and VFF REIT portfolios beat the Dow Jones Wilshire REIT Index during the quarter, but lagged the TUCS Real Estate Median Return.



Deferred Compensation Plan

Historical Performance Periods Ended December 31, 2005

	<u>Qtr</u>	<u>One Year</u>	<u>Three Year</u>	<u>Five Year</u>	<u>Ten Year</u>
U.S. Equity Option	2.1%	4.9%	14.3%	0.4%	8.9%
<i>Custom S&P 500 Index ⁴</i>	<i>2.1</i>	<i>4.5</i>	<i>14.2</i>	<i>0.4</i>	<i>9.1</i>
Fixed Income U.S. Treasury Option	0.7	1.7	1.9	4.6	5.3
<i>Lehman Intermediate Treasury</i>	<i>0.6</i>	<i>1.6</i>	<i>1.9</i>	<i>4.6</i>	<i>5.4</i>
<i>Lehman Aggregate Bond Index</i>	<i>0.6</i>	<i>2.4</i>	<i>3.6</i>	<i>5.9</i>	<i>6.2</i>
<i>Citigroup Medium Term 1-10 Treasury</i>	<i>0.6</i>	<i>1.6</i>	<i>2.7</i>	<i>5.2</i>	<i>5.7</i>
Cash Equivalents	0.9	2.8	1.5	2.0	3.6
<i>Citigroup 30 Day T-Bill</i>	<i>0.9</i>	<i>3.0</i>	<i>1.7</i>	<i>2.1</i>	<i>3.5</i>

Commentary

- ◆ The U.S. equity portfolio mirrored the custom tobacco-free S&P 500 Index during the quarter and is performing in-line with expectations.
- ◆ The U.S. Treasury option added value relative to the Lehman Intermediate Treasury Index, the Lehman Aggregate Bond Index, and the Citigroup Medium Term 1-10 Treasury Index during the quarter.
- ◆ The cash option performed in line with the Citigroup 30 Day T-Bill Index during all times periods.

⁴ A tobacco-free S&P 500 is used as the benchmark for the U.S. equity segment of the Deferred Compensation Plan starting with the February 2001 performance.





Investment Office

P.O. Box 2749

Sacramento, CA 94229-2749

(916) 795-3400

FAX (916) 795-3248

March 13, 2006

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V. STRATEGIC PLAN:

Goal VIII: Manage the risk and volatility of assets and liabilities to ensure sufficient funds are available, first, to pay benefits and second, to minimize and stabilize contributions.

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Members of the Investment Committee
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Executive Summary

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California Legislators'
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- ◆ Non-US equity markets continued to produce higher returns than the US equity markets as the MSCI ACWI ex-US returned 4.4% in USD and 6.9% in local currency. The Pacific region outperformed Europe (MSCI Pacific 8.6% in USD; MSCI Pacific 12.6% in local currency; MSCI Europe 2.0% in USD; MSCI Europe 4.6% in local currency), as crude oil prices fell and dampened the performance of major European companies like Royal Dutch Shell and British Petroleum. The emerging markets continued to outperform the developed markets as the MSCI EMF Index returned 7.2% in USD and 7.0% in local currency versus the MSCI EAFE Index return of 4.1% in USD and 7.1% in local currency.
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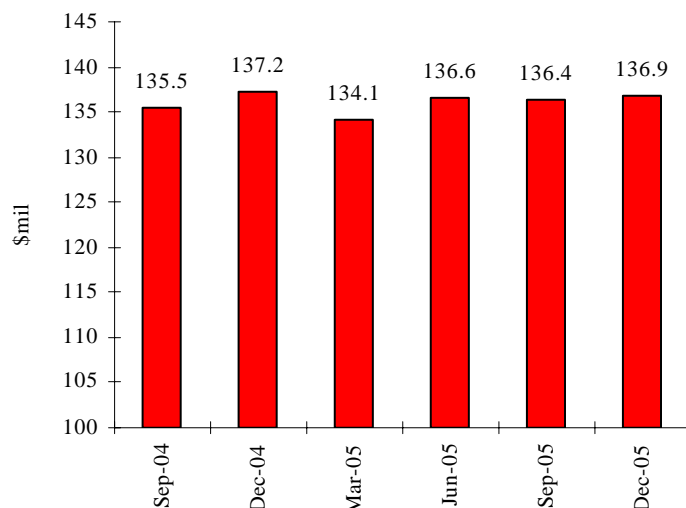
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Dow Jones Wilshire 4500	2.70	10.03	23.18	6.86	9.79
Wilshire Large Cap 750	2.30	5.54	14.80	0.76	8.94
Wilshire Small Cap 1750	2.37	7.89	23.70	8.37	10.56
Wilshire Micro Cap 2500	0.54	2.76	32.30	21.33	16.44
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MSCI EAFE	4.08	13.53	23.68	4.55	5.83
MSCI Europe	1.95	9.42	22.37	3.68	9.38
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MSCI EMF Index	7.20	34.54	38.35	19.43	6.99
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Citigroup Hedged Non-U.S. Gov.	0.87	5.69	4.24	5.13	7.19
Currency*					
Euro vs. \$	-2.16%	-13.22%	3.98%	4.67%	-.-%
Yen vs. \$	-3.97	-13.18	0.18	-0.66	-1.34
Pound vs. \$	-2.96	-10.58	2.17	2.82	1.01
Real Estate					
Dow Jones Wilshire REIT Index	2.52%	13.82%	27.32%	19.15%	15.36%
Dow Jones Wilshire RESI	3.02	13.82	28.13	18.99	15.12
NCREIF Property Index	5.43	20.06	14.42	11.40	12.09

*Positive values indicate dollar depreciation.



California Legislators' Retirement System

Growth in Assets



Total Fund Performance Results

Total Fund Performance Periods Ended December 31, 2005

	<u>Qtr</u>	<u>One Year</u>	<u>Three Year</u>	<u>Five Year</u>	<u>Ten Year</u>
LRS	2.0%	5.7%	10.1%	4.9%	8.6%
<i>Weighted Policy Benchmark ¹</i>	1.4	5.1	9.8	5.4	8.7
<i>TUCS Public Fund Median ²</i>	2.3	7.6	13.8	5.2	8.6

Asset Allocation

Asset Class	Actual	Policy	Difference
US Equity	29.5%	30.0%	-0.5%
International Equity	10.2	10.0	0.2
US Bonds	50.2	50.0	0.2
TIPS	10.2	10.0	0.2
Cash Equivalents	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
	100.0	100.0	0.0

¹ The weighted policy benchmark returns are based on asset class index returns weighted by asset class policy targets.

² The Trust Universe Comparison Service (TUCS) is a universe of over 1,000 client portfolio returns subdivided by client type and asset class.



Commentary

- ◆ The California Legislators' Retirement System ("LRS, the System") generated a return of 2.0%, during the fourth quarter of 2005, beating its weighted policy index over the quarter, as well as for the 1 year, 3 year and 10 year time periods. The LRS has underperformed relative to the TUCS Public Fund Median during the quarter and the 1 year, 5 year, and 3 year time periods.
- ◆ As of quarter-end, the System's market value was \$136.9 million, which represents a net increase of approximately \$0.5 million from the beginning of the quarter. The change in market value consisted of net distributions and administrative fees of \$2.2 million and a net investment gain of \$2.8 million.

LRS Internal U.S. Equity Assets

LRS Internal U.S. Equity Performance Periods Ended December 31, 2005

	<u>Qtr</u>	<u>One Year</u>	<u>Three Year</u>	<u>Five Year</u>	<u>Ten Year</u>
LRS U.S. Equity	2.1%	4.6%	14.2%	0.4%	9.0%
Custom S&P 500 Index ³	2.1	4.5	14.2	0.4	9.0
TUCS Equity Median	2.2	7.4	18.0	3.2	10.4

Commentary

- ◆ The U.S. stock market enjoyed another positive quarter, as the Dow Jones Wilshire 5000 Index returned 2.2%, outpacing the S&P 500 Index, which returned 2.1%. The Materials Sector, helped by continued construction spending, was the top performing sector with a return of 8.3%, while the Energy Sector, hindered by the pull-back in oil prices, was the worst-performer returning -6.8%. Growth stocks outperformed versus value stocks across the markets.
- ◆ LRS's U.S. equity portfolio mirrored the return of the custom tobacco-free S&P 500 Index for the quarter, and it continues to display minimal tracking error over all longer periods. This portfolio continues to trail the TUCS Equity Median over all periods.

³ A custom tobacco-free S&P 500 is used as the benchmark for the U.S. equity segment of LRS starting with the February 2001 performance.



International Equity Performance

Total International Equity Performance Periods Ended December 31, 2005

	<u>Qtr</u>	<u>One Year</u>	<u>Three Year</u>	<u>Five Year</u>	<u>Ten Year</u>
State Street Int'l	4.1%	13.9%	24.3%	5.0%	6.1%
MSCI EAFE Index	4.1	13.5	23.7	4.6	5.8

Commentary

- ◆ Non-US equity markets continued to produce higher returns than the US equity markets as the MSCI ACWI ex-US returned 4.4% in USD and 6.9% in local currency. The Pacific region outperformed Europe (MSCI Pacific 8.6% in USD; MSCI Pacific 12.6% in local currency; MSCI Europe 2.0% in USD; MSCI Europe 4.6% in local currency).. The emerging markets continued to outperform the developed markets as the MSCI EMF Index returned 7.2% in USD and 7.0% in local currency versus the MSCI EAFE Index return of 4.1% in USD and 7.1% in local currency.
- ◆ The System's international equity portfolio matched the return of the MSCI EAFE Index (Net of Dividends), returning 4.1% during the quarter and is performing in line with expectations.



Total Fixed Income

Total Fixed Income Performance Periods Ended December 31, 2005

	<u>Qtr</u>	<u>One Year</u>	<u>Three Year</u>	<u>Five Year</u>	<u>Ten Year</u>
LRS Fixed Income	1.7%	4.3%	5.1%	6.6%	6.6%
<i>Lehman Aggregate Bond Index</i>	0.6	2.4	3.6	5.9	6.2
<i>Lehman Long Liability ex TIPS</i>	0.7	-.	-.	-.	-.
<i>Citigroup LPF Index</i>	0.8	3.8	5.1	7.2	6.9
<i>TUCS Fixed Income Median</i>	0.7	2.8	4.4	6.3	6.5
LRS TIPS	0.4	0.6	-.	-.	-.
<i>Lehman Long Liability TIPS</i>	0.4	3.7	-.	-.	-.

Commentary

- ◆ The Lehman Aggregate Bond Index rose during the quarter, returning 0.6%. Among the Lehman sectors, the Mortgage sector slightly outperformed the Credit sector, returning 0.6% and 0.5%, respectively, for the quarter. High yield bonds produced similar results to their counterparts as the Citigroup High Yield Cash Pay Index reported a 0.6% return. The international bond markets lagged the U.S. bond market as the Citigroup Non-US Government Bond Index generated a return of -2.6% during the quarter, as the major currencies depreciated versus the USD.
- ◆ The System's fixed income portfolio beat the Lehman Aggregate Bond Index, the Lehman Long Liability ex-Tips, the Citigroup LPF Index, and the TUCS Fixed Income Median return during the most recent quarter. Over longer periods, the portfolio has outperformed versus the Lehman Aggregate Bond Index for all other time periods. The System's fixed income portfolio return has beaten or mirrored the Citigroup LPF Index return for the one-year, and the three-year time periods but has trailed over longer periods.
- ◆ For the quarter, the TIPS portfolio has matched the Lehman Long Liabilities TIPS Index, but lags it over the one-year time frame.

